

Message Text

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PASS TREASURY, FRB AND CEA

E.O. 11652: ADS "DECLASSIFIED ON JAN. 1, 1978"

TAGS: EFIN, EEC

SUBJECT: EC/US FINANCIAL CONSULTATIONS

REFS: A. SECSTATE 102560

B. EC BRUSSELS 01815

C. EC BRUSSELS-A-053

1. SUMMARY: VICE PRESIDENT HAFERKAMP AND TWO OTHER COMMISSION OFFICIALS PLAN TO ACCOMPANY IRISH FINANCE MINISTER RYAN ON HIS TRIP TO WASHINGTON. THE COMMISSION HAS PREPARED AN ANALYSIS OF THE CURRENT EC ECONOMIC SITUATION FOR THE MEETING WITH SECRETARY SIMON WHICH REVISES DOWNWARD ECONOMIC GROWTH PROJECTIONS AND THE 1975 EC BALANCE OF PAYMENT DEFICITS. END SUMMARY.

2. THREE EC COMMISSION OFFICIALS WILL ACCOMPANY IRISH FINANCE MINISTER RYAN ON HIS TRIP TO THE US. THESE ARE: VICE PRESIDENT WILHELM HAFERKAMP; DIRECTOR GENRAL FOR ECONOMIC AND FINANCIAL AFFAIRS, UGO MOSCA; AND CHIEF OF HAFERKAMP'S OFFICE, FRANZ FROSCHMAIER. THESE OFFICIALS WILL ARRIVE IN WASHINGTON IN THE EVENING OF MAY 14 AND REMAIN AT LEAST THROUGH MAY 16. THEY WILL BE STAYIING AT THE WATERGATE HOTEL.

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3. COMMISSION FINANCIAL OFFICERS HAVE PREPARED AN ANALYSIS OF

THE EC ECONOMIC SITUATION WHICH THEY PROPOSE GIVING TO SECRETARY SIMON AND OTHERS DURING THE MAY 16 MEETINGS. THIS DOCUMENT PROVIDES THE BACKGROUND FOR THE POINTS THAT THE EC DELEGATION MIGHT MAKE TO SECRETARY SIMON. THE ASSESSMENT COVERS THREE MAIN POINTS: 1) CURRENT EC ECONOMIC SITUATION; (2) PROSPECTS FOR ECONOMIC RECOVERY AND ECONOMIC FORECASTS FOR 1976; AND 3) WORLD TRADE OUTLOOK. THE COMMISSION HAS NOT YET OBTAINED RYAN'S CONCURRENCE ON HOW TO HANDLE THIS DOCUMENT. IF THE EC DECIDES TO PROVIDE IT TO US OFFICIALS PARTICIPATING IN THE DISCUSSION, WE HAVE SUGGESTED THAT THE EC MIGHT GIVE US AN ADVANCE COPY SO THAT US PARTICIPANTS COULD STUDY IT BEFORE THE MEETING. THE EC WILL LET US KNOW ON MAY 12 OR 13 IF THE DOCUMENT WILL BE RELEASED IN ADVANCE. IF IT IS, WE SHALL TRANSMIT IT BY CABLE, IF WARRANTED.

4. COMMISSION OFFICIALS HAVE BRIEFED US ON THE HIGHLIGHTS OF THE DRAFT DOCUMENT. IT REVISES THE ESTIMATES REPORTED IN REF B AND C. THE COMMISSION PROJECTS THAT THE EC'S GNP WILL GROW IN REAL TERMS ONLY 0.5 PERCENT THIS YEAR AND 3-4 PERCENT NEXT YEAR. THE OVERALL BALANCE OF PAYMENT DEFICIT ON CURRENT ACCOUNT IS REVISED DOWN TO MINUS \$4 BILLION IN 1975 AND MINUS \$6-8 BILLION IN 1976. THESE BOP FIGURES FOR 1975 ARE BROKEN DOWN AMONG THE MAJOR MEMBER STATES AS FOLLOWS:

FRG, PLUS \$8 BILLION; THE UK, MINUS \$7 BILLION; ITALY, MINUS \$2.5 BILLION; AND FRANCE, MINUS \$2.5 BILLION. THE COMMISSION BELIEVES THAT THE DEFICIT COUNTRIES WILL EXPERIENCE SOME DETERIORATION IN THEIR CURRENT ACCOUNT FIGURES IN 1976.

5. THE COMMISSION ESTIMATES THAT EC UNEMPLOYMENT WILL AVERAGE ABOUT 4 MILLION FOR THIS YEAR, ROUGJLY 4 PERCENT OF THE ACTIVE LABOR FORCE. THIS LEVEL WILL LIKELY PERSIST FOR THE MOST OF NEXT YEAR WITH THE POSSIBILITY OF SOME IMPROVEMENT NEAR THE END OF 1976. THE AVERAGE INCREASE IN OVERALL EC CONSUMER PRICES WILL BE ABOUT 12 PERCENT IN 1975 AND 10 PERCENT IN 1976. RATES AMONG THE NINE WILL VARY SHARPLY. THE INCREASE IN THE CPI IN THE UK, ITALY AND IRELAND WILL AVERAGE RATES CLOSE TO 20 PERCENT THIS YEAR. ITALY'S END OF YEAR RATE SHOLD SHOW SUBSTANTIAL IMPROVEMENT, HOWEVER. ITALY'S RATE OF PRICE INCREASE SHOULD CONTINUE TO FALL NEXT YEAR. THE
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UK'S AND IRELAND'S, HOWEVER, WILL CONTINUE TO AVERAGE ABOUT 20 PERCENT NEXT YEAR. THE VOLUME OF WORLD TRADE IS EXPECTED TO GROW 2 PERCENT THIS YEAR AND 6 PERCENT NEXT YEAR.

6. COMMENT: THE COMMISSION HAS STEADILY REVISED DOWNWARD THE COMMUNITY'S ECONOMIC GROWTH PROSPECTS. FINANCIAL OFFICIALS NOW FORSEE REAL GROWTH FALLING BY 2 PERCENT IN THE FIRST HALF OF 1975 AND INCREASING BY 2.5 OF 3 PERCENT IN THE

SECOND HALF. INDICATORS ARE MIZED WHICH MAKES THEM CAUTIOUS
IN FORECASTING AN UPTURN IN THE SECOND SEMESTER OF THIS YEAR.
RECENT SURVEYS SHOW SOME IMPROVEMENT IN CONSUMER CONDIFENCE
AND BUSINESS EXPECTATIONS. NEW BUSINESS ORDERS CONTINUE TO DECLINE,
HOWEVER, BUT THE RATE OF THIS DECLINE SLACKENED SOMEWHAT
IN MARCH. BUSINESS INVENTORIES ALSO CONTINUE TO INCREASE. END
COMMENT.MYERSON

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